

MORTGAGE BROKER MANUAL

STATE OF CALIFORNIA
DEPARTMENT OF VETERANS AFFAIRS
CAL-VET FARM AND HOME LOANS



March 20, 2003

TABLE OF CONTENTS

INTRODUCTION

Purpose.....	5
Goals and Objectives.....	5
Legislative Mandate	5
Mortgage Broker Participation.....	5
Benefits to Participation	6
Selling Points for a Cal-Vet loan.....	6
What's New with Cal-Vet.....	6
Mortgage Broker Loan Application Submittal Form.....	7
Mortgage Broker Loan Application Transmittal Form	7
Mortgage Broker Agreement.....	8
Loan Submission.....	8
Field Offices and Access.....	8
Information Technology.....	10
Standards of Performance	10

ELIGIBILITY AND FUNDING SOURCES

Eligibility	12
Eligibility Tips	13
Funding Sources for Cal-Vet Loans	13
Use of the Eligibility/Funding Worksheet.....	14

ABOUT THE CAL-VET LOAN

Loan Types	17
Cal-Vet 97 Loan	17
Cal-Vet 80/20 Loan	17
Cal-Vet VA Loan	18
Loan to Value.....	18
Fees.....	18
Impound Accounts	19
Property Taxes.....	19
Insurances	20
Home Protection Plan (Insurance)	20
Estimating the Payment	21
Maximum Loan Amounts	21
Interest Rates.....	21
Down Payment.....	22
Types of Homes	22
Property Requirements	22
Prequalification	23

PROCESSING THE LOAN

Processing Stages	25
Submission of URLA (Form 1003)	25
Review of the URLA (Form 1003)	26
Full Compliance	26
Processing Time	26
Applicant Interview.....	27

VA Eligibility Center.....	27
Underwriting Standards.....	27
Income Analysis.....	28
Documentation.....	28
Credit Report.....	28
Red Flags and Tips.....	29
Review of the Purchase Contract.....	29
Preliminary Title Report.....	29
Appraisal.....	30
Property Clearances.....	31
Homeowners Associations.....	31
Flood Zones.....	31

WORKING WITH CAL-VET

Originating the Loan.....	33
Centralized Loan Processing.....	33
Initial Action.....	33
Status Checks.....	33
Loan Approval Letter.....	33
Reading the Good Faith Estimate.....	34

CLOSING ESCROW

Package Receipt in Escrow Unit.....	36
Escrow Instructions.....	36
Mortgage Broker Compensation.....	36
Request for Funding.....	36
Status Calls.....	37
Post Closing.....	37

REFERENCE

Insurance Programs.....	39
Special Loan Programs.....	40
Construction Loans.....	40
Rehabilitation Loans.....	40
Secondary Financing.....	40
Interim Financing.....	41
Owner Occupancy.....	41
Contract of Sale.....	41
Brochures.....	42
Home Protection Plan (Life Insurance).....	42
Fire and Hazard Insurance.....	42
Supplemental Tax Bill.....	42
Monthly Billing Statements.....	42

INTRODUCTION

- Purpose
- Goals & Objectives
- Legislative Mandate
- Mortgage Broker Participation
- Benefits to Participation
- Selling Points for a Cal-Vet Loan
- What's New with Cal-Vet
- Mortgage Broker Loan Application Submittal Form
- Mortgage Broker Loan Application Transmittal Form
- Mortgage Broker Agreement
- Loan Submission
- Field Offices and Access
- Information Technology
- Standards of Performance

PURPOSE

The Cal-Vet Loan Program, hereafter referred to as Cal-Vet, is a program administered by the California Department of Veterans Affairs to meet the home financing needs of qualified veterans purchasing single-family residences in the state. The program provides a measurable benefit to veterans through money-saving loan features and comprehensive protection for their investment and family. Cal-Vet seeks to provide this benefit of home ownership to the widest group of veterans in appreciation of their service to state and country.

Cal-Vet seeks to provide this benefit of home ownership to the widest group of veterans in appreciation of their service to state and country.

GOALS AND OBJECTIVES

Our goal is to provide the Cal-Vet loan benefit to qualified veterans. Use of mortgage brokers to originate Cal-Vet loans will provide increased access for veterans, as brokers are active in every market in the state and originate the majority of all home loans. By certifying mortgage broker companies, Cal-Vet can develop a good working relationship with mortgage brokers to assure quality service to veteran applicants and program accountability. Through training provided by the Department, the quality and ease of the loan process will improve for the benefit of all participants.

LEGISLATIVE MANDATE

Under legislation incorporated in the Military and Veterans Code of the State of California, the Department is mandated to meet several key requirements. It must establish a system to achieve loan processing times that average thirty days or less for existing homes, **measured from the receipt of a fully compliant application through to the issuance of loan documents to the escrow holder**. Guidelines are in place to ensure optimal participation of qualified mortgage brokers, through training and certification. The Department has taken action to meet these legislative mandates.

MORTGAGE BROKER PARTICIPATION

Cal-Vet will certify mortgage companies to originate loans. Compensation, in the form of the loan origination fee, will only be paid by Cal-Vet to the certified company. Loan officers seeking to originate loans and receive compensation must make sure that their company is certified by Cal-Vet, and that they attend the formal training seminar from Cal-Vet. Only trained DRE licensed loan officers working for certified DRE licensed mortgage broker companies may originate Cal-Vet loans and receive compensation.

Certification requirements are:

Only trained loan officers working for certified mortgage broker companies may originate Cal-Vet loans and receive compensation.

- The company (or branch of a company) must be certified. The broker of record must sign the broker agreement with Cal-Vet.
- The company must have experience and be certified to originate VA loans.
- The company must send one or more loan officers to the formal training provided by Cal-Vet.
- The company must maintain a contact person, to receive and respond to feedback, and to receive program updates.

Cal-Vet provides training seminars throughout the state. The training is for the brokers or loan officers of the company. A loan officer may bring a loan processor to the training. The training does require pre-registration; only those pre-registered will be able to attend. There is no cost for the training. The training will be conducted by experienced Cal-Vet staff. Only a Cal-Vet trained loan officer may originate a Cal-Vet loan and receive compensation. The trainee will receive:

- A copy of this manual via our website at www.cdva.ca.gov

- Seminar Notebook
- Training Certificate

The certified company and their trained loan officers will be listed on the Cal-Vet web site as certified to originate Cal-Vet loans. Cal-Vet will provide feedback on loan submittals and processing to the contact person for the company. This feedback and response should improve quality and the working relationship between brokers and Cal-Vet staff.

BENEFITS TO PARTICIPATION

The compensation for the mortgage brokers that originate Cal-Vet loans is to receive the 1% Loan Origination Fee, in escrow. This is 1% of the base Cal-Vet loan amount. The broker may also charge a processing fee. Any additional brokerage fee will not be part of the Cal-Vet escrow instructions. (NOTE: For VA guaranteed loans only, if veteran is paying the 1% Cal-Vet LOF they may **not** pay be charged an additional processing fee by the broker). Cal-Vet staff does the ordering of the appraisals, the underwriting process and issuance of the escrow instructions, thereby reducing most of the burden of the overall process for mortgage brokers.

SELLING POINTS FOR A CAL-VET LOAN

For the mortgage broker, a Cal-Vet loan has many advantages for your qualified veteran applicant. Although a selective market, there are approximately three million veterans living in California and eligibility has been expanding. Awareness of the program and demand for the loan has been increasing. The Cal-Vet loan has these selling points to help make the financing decision:

- Competitive interest rates
- Below market rates for first-time home buyers
- Low down payment requirement
- Loan maximum conforming to Fannie Mae limits
- One-time loan guaranty fee – no monthly PMI
- Low-cost insurance programs
- The loan may be used again
- Interest Rate Locked at Submission
- Float Down Benefit
- In-House Servicing
- Free Prequalifications

Be sure and request a prequalification form. The local office will quickly provide a comprehensive letter regarding your client's eligibility.

WHAT'S NEW WITH CAL-VET

Cal-Vet has made many changes to improve the flexibility of the program and provide better service to its customers. The Department has greater flexibility to raise or lower the interest rates charged on new loans to better position the loan in the competitive market. The rates can be changed quickly to respond to market conditions, without a cumbersome approval process or notice period. The interest rate is "locked-in" on the date that the application is received in the district office. If the interest rate drops during the processing of the loan, the applicant gets the advantage of an unlimited "float down" in the interest rate. Cal-Vet also offers several types of loans, allowing for some streamlining of documentation requirements and faster processing times. Although the Cal-Vet VA loan will continue to be offered, more veterans are choosing the Cal-Vet 97 and Cal-Vet 80/20 loans for reduced documentation and faster loan processing.

The interest rate is "locked-in" on the date that the application is received in the district office.

The Program uses centralized loan processing. The field offices focus on the origination of loans – receiving loans originated by mortgage brokers and accepting loans directly from veterans. The loans are delivered to our Loan Processing Unit in Sacramento (HQ), for processing. The Escrow Unit then receives the completed

loans; issues the escrow instructions and loan documents, and issues the funding check. Working under the legislative mandate and increased processing efficiencies, Cal-Vet is meeting the required average processing time of thirty days or less for existing homes, measured from receipt of the **fully compliant application** to the issuance of the escrow instructions.

Cal-Vet is developing a new system for electronic eligibility approval and submission of the loan application, which will speed up the data entry and allows for funds to be reserved and interest rates to be locked-in. Certified brokers will have access to this online system via the web site, and will be able to determine the status of the loan online.

MORTGAGE BROKER LOAN APPLICATION SUBMITTAL FORM

This form must be submitted with any Cal-Vet loan originated by a mortgage broker. The form provides clear information on the loan originator, the certified mortgage company and contact information. It allows Cal-Vet staff to have the necessary information to contact the loan officer or loan processor. It also identifies the contact person for the appraisal appointment.

All of the information needs to be complete and legible. Provide all phone numbers, including pager numbers, for the loan officer and the loan processor. The fax number will help speed up receipt of letters for additional documents or the loan approval letter with final requirements. The information on the fees must be accurate and consistent with the real estate purchase contract (sales agreement). The broker should provide sufficient information and phone numbers for the contact person(s) for the appraisal so that ordering of the appraisal can be done efficiently.

Specifically, the following information is to be entered onto the form. The form must be submitted with the initial application submittal.

- Applicant's name
- Originating Loan Officer; phone number; pager number
- Loan Processor; phone number
- Address (street, city, zip code)
- Fax Number, E-mail address
- Broker of Record; Company Name
- Who to contact for the appraisal appointment (name, phone number)

MORTGAGE BROKER LOAN APPLICATION TRANSMITTAL FORM

The Transmittal form must be the top sheet on the submittal of the loan application package to Cal-Vet. This form provides a summary of the transaction, and allows Cal-Vet staff to immediately determine the loan type, funding and other information that properly categorizes the loan.

The information must be accurate and consistent with the real estate purchase contract (sales agreement), loan application (Form 1003) and other documentation. The selections for payment of fees must be consistent with the type of loan chosen. The information to be provided on this form includes:

Originator's name
Applicant's name
Property type
New or existing construction
Purchase price
Down payment
Loan amount
Loan type

Source of funds (bond type)
Who (buyer/seller) will pay the fees

MORTGAGE BROKER AGREEMENT

The broker of record for the company (or branch of the company) must sign the Mortgage Broker Agreement. This signed agreement is a requirement for the certification of the mortgage company to originate Cal-Vet loans. It specifies the responsibilities of each party to the agreement, as well as the remedies in the case of a breach of a provision.

LOAN SUBMISSION

The originating broker submits the loan to the local Cal-Vet district office. The loan should be submitted as soon as possible to reduce the overall processing time. The documents that Cal-Vet considers **“full compliance”** in order to start the underwriting process are:

- Uniform Residential Loan Application (Form 1003)
- The signed Sales Agreement (Real Estate Purchase Contract, with Transfer Disclosure Statement)
- Evidence of military eligibility (DD-214)
- Current pay stubs/verification of income
- A current Preliminary Title Report

The applicant will receive the benefit of any reduction in the interest rate (“float down”) during the processing of the loan.

The originating broker still needs to submit the complete package, but these are the normal initial items that allow for loan submittal.

The interest rate charged on the loan is locked-in as of the date the application is received by the field office. If a change in the interest rate occurs, a legible postmark may be used to determine the date of submittal of mailed applications. A fax may be accepted, and the printed sending date used to establish the application date. The applicant will receive the benefit of any reduction in the interest rate (“float down”) during the processing of the loan. As long as the escrow has not been closed (funded), the applicant will receive the lower rate. The application date also reserves the funds for the loan. Cal-Vet currently uses three sources of bond funds with cash forecasting and reservation of funds to assure that the funds are available for the loan.

An application must specify a specific property. Cal-Vet will not accept an application if there is not a property that the applicant has contracted to purchase. If the applicant changes property selections (due to choice or due to unforeseen circumstances), a new application must be submitted. The application date will be that of the date of the new submission. There are no property substitutions on a submitted application.

Only certified mortgage broker companies will receive the compensation for the origination of a Cal-Vet loan. An application submitted by a non-certified broker may be accepted for processing, but the broker will be notified that the fee will not be paid to them, and the options explained, including substituting a certified broker.

FIELD OFFICES AND ACCESS

Cal-Vet has ten offices statewide. All of the offices are open Monday through Friday, from 8:00 am to 5:00 pm. The field offices are staffed by property agents, program technicians and clerical staff. Office functions include:

- Processing of Prequalification applications
- Loan origination; intake of applications directly or those originated by brokers.
- Preliminary review of the application, including client interviews as needed.
- Submittal of loan applications to the Loan Processing Unit (HQ)

- Processing of Construction, Rehabilitation Loans and Home Improvement loans.
- Marketing and outreach to increase loan volume and build relationships.
- Provide training (formal and informal) of real estate professionals.

The field offices are located as follows:

Sacramento

1227 "O" Street, Suite 402
Sacramento, CA 95814
(916) 503-8359 FAX (916) 651-9085

Concord

2520 Stanwell Drive, Suite 160
Concord, CA 94520
(925) 602-5070 FAX (925) 602-5086

Fresno

1752 East Bullard Avenue, Suite 101
Fresno, CA 93710
(559) 445-5466 FAX (559) 445-5494

West Covina

343 North Azusa Avenue
West Covina, CA 91791
(800) 700-2127 FAX (626) 732-6704

San Diego

3160 Camino Del Rio South, Suite 112
San Diego, CA 92108
(619) 641-5840 FAX (619) 641-5851

Redding

930 Executive Way, Suite 125
Redding, CA 96002
(530) 224-4955 FAX (530) 224-4959

Santa Clara

68 North Winchester Boulevard
Santa Clara, CA 95050
(408) 277-1282 FAX (925) 602-5086

Bakersfield

5500 Ming Avenue, Suite 155
Bakersfield, CA 93309
(661) 833-4720 FAX (661) 833-4732

Ventura

1000 South Hill Road, Suite 112
Ventura, CA 93003
(805) 654-6901 FAX (805) 654-6906

Riverside

1770 Iowa Avenue, Suite 260
Riverside, CA 92507
(909) 774-0102 FAX (909) 774-0111

The HQ operations include the **Loan Processing Unit** and **Escrow Unit** which perform the centralized functions of underwriting, approving and funding all new loans. These units will be in contact with mortgage brokers and applicants during those processing phases. The contact information is as follows:

Loan Processing Unit

Cal-Vet Home Loans
1227 "O" Street, Room 402
P.O. Box 942895
Sacramento, CA 94295-0001
(916) 503-8352
FAX (916) 653-9641

Escrow Unit

Cal-Vet Home Loans
1227 "O" Street, Room 403
P.O. Box 942895
Sacramento, CA 94295-0001
(916) 503-8353
FAX (916) 653-2448

Cal-Vet also has a **Call Center** for obtaining general information and loan applications (1-800-952-5626).

The Cal-Vet web site can be accessed at www.cdva.ca.gov. This is an important source of program information and program changes. Any change in the interest rate will be reported on the web site immediately. It is recommended that the web site be checked periodically, especially at the time that a new loan is to be submitted.

The Cal-Vet web site
can be accessed at
www.cdva.ca.gov

INFORMATION TECHNOLOGY

Cal-Vet expects to add significant capability for electronic submittal and tracking of loan applications, including the following:

- An on-line application form so that individuals or their agents may complete and submit a Universal Residential Loan Application (1003) directly to Cal-Vet.
- Capability for mortgage brokers to upload a URLA from any standard loan processing software using the Fannie Mae Desktop Underwriter interface. It is anticipated that Cal-Vet will eventually require electronic submittal by brokers.
- On-line eligibility determination including funding source qualification.
- On-line prequalification.
- On-line application tracking – brokers will be able to login to see the status of their applications in process.
- Automatic e-mails for all status changes – brokers and applicants will receive an e-mail every time the status changes on their application.
- E-mail of loan documents to escrow holders.

STANDARDS OF PERFORMANCE

The Department is committed to optimizing the participation of mortgage brokers in the origination of Cal-Vet loans. The certification of companies and training of staff will be ongoing to assure participation. In order to promote quality processing and a good working relationship between brokers and Cal-Vet staff, the following standards are expected:

- Certified companies will send sufficient staff to training, as needed.
- Only loan officers who have attended the Cal-Vet training may originate a Cal-Vet loan.
- Certified companies will use the Cal-Vet Program, and consider Cal-Vet financing for all qualified veterans.
- Certified companies will select a contact person to receive and respond to feedback on processing and program changes.
- Certified companies will utilize electronic technology via the web site or Interactive Voice Response (IVR) for loan processing status, and use the web site for online data entry for application submittals (when available).
- Staff of certified companies and Cal-Vet staff will show professionalism and respect in working together to process the Cal-Vet loans.
- Failure to respond to feedback on loan submissions, and/or non-compliance with Cal-Vet guidelines will lead to the de-certification of the company.

The Department is committed to optimizing the participation of mortgage brokers in the origination of Cal-Vet loans.

The appeal process for the applicant, regarding any dispute over a policy or procedure in the processing of the loan, is through the administration of the Cal-Vet Home Loan Program. The local Field Manager can direct the applicant or mortgage broker to the appropriate level of appeal.

Eligibility & Funding Sources

- Eligibility
 - Eligibility Tips
 - Funding Sources for Cal-Vet Loans
 - Use of the Eligibility/Funding Worksheet
-

ELIGIBILITY

Determining that the applicant is eligible for Cal-Vet benefits is a critical first step in originating a Cal-Vet loan. The eligibility for Cal-Vet benefits is defined by the Military and Veterans Code of the State of California, in Section 980. A brief discussion of eligibility is as follows:

The applicant must have qualifying active military service. He or she must have been discharged/separated from the active military under at least honorable conditions or be currently serving on active duty. Active military service is typically with one of the branches of the U.S. military: Air Force, Army, Coast Guard, Marine Corps or Navy. Service with a component of the Reserves or National Guard may be qualifying. Active service for training purposes only does not qualify.

There is no residency requirement - the VETERAN DID NOT HAVE TO ENTER SERVICE FROM CALIFORNIA

The applicant must have served under honorable conditions – an Honorable Discharge or General Discharge under Honorable Conditions. Personnel currently serving on active duty must have a Statement of Service specifying that they are serving honorably. The applicant must have served a minimum of ninety consecutive days on active service. There is no residency requirement – the **VETERAN DID NOT HAVE TO ENTER SERVICE FROM CALIFORNIA**.

While all veterans, as defined by the Military and Veterans Code, are eligible under state law, it is important to determine whether their service qualifies them as wartime-era veteran or a peacetime-era veteran. The sources of funds, to be discussed in this manual, have federal restrictions based upon service periods. Wartime-era veterans are those who had at least one day of active service during a qualifying war period or received or are eligible to receive a qualifying campaign or expeditionary medal. For veterans who only had active service during peacetime, funding is limited to Revenue Bonds (QMB) .

The typical source document to determine eligibility is the discharge document form DD-214 that the veteran receives upon separation from the military. The form may differ by branch of service and has changed in format over the years. It should have the applicant's dates of military service, branch of service and character of service. If there are any questions in determining eligibility, the Cal-Vet district office will review the eligibility, as well as provide a prequalification for the loan.

If the Cal-Vet loan is to use a VA loan guaranty (Cal-Vet VA loan), the mortgage broker may obtain a *current* **Certificate of Eligibility (VA form 26-8320)** from the VA Regional Office. This form is obtained by mailing a completed form 26-1880 Request for Determination of Eligibility, plus a copy of the applicant's DD-214 to the VA Regional Office. The Los Angeles VA Eligibility Center is located at P.O. Box 240097, Los Angeles, CA 90024. For more information, the web site address is www.vahomes.org/la/certelig.htm. The certificate may take up to two weeks for receipt, so the request should be sent as soon as possible. Upon receipt, the certificate should be carefully reviewed to determine whether the applicant has a full entitlement and whether they have used their VA entitlement previously. A full entitlement indicates that they have \$36,000 of entitlement. If the applicant has less than a full entitlement, Cal-Vet will not obtain a VA loan guaranty, and a Cal-Vet loan other than a Cal-Vet VA loan must be processed. If the applicant has used his/her VA entitlement previously, it may affect the amount of the loan guaranty fee (funding fee) paid on the loan. If the Cal-Vet loan is not to use a VA loan guaranty, a Certificate of Eligibility is NOT required.

If the Cal-Vet loan is to use a VA loan guaranty (Cal-Vet VA loan), the mortgage broker must obtain a *current* Certificate of Eligibility (VA form 26-8320) from the VA Regional Office.

ELIGIBILITY TIPS

A careful review of the eligibility documents will help determine the applicant's qualification for bond funds and choice of loan type. It will also avoid disappointment and delay if the application must be denied due to the applicant not being eligible or if there is not a source of funds for the loan. These are some tips:

- Is the DD-214 legible and complete? Does it show the character of service (some DD-214 documents are multi-page, and the front page may not show the character of service).
- If the loan is to be a Cal-Vet VA loan, has a current (less than six months) Certificate of Eligibility been ordered from the VA?
- Does the veteran have active military service from one of the five branches of the military or meet the requirements of other service? Is it regular active service of at least 90 consecutive days (or meet one of the exceptions)?
- Is the veteran a wartime-era veteran, or is all of the service during a peacetime era?
- If the applicant is currently serving on active duty, a Statement of Service must be obtained from the commanding officer, indicating active service dates and character of service.
- In unusual eligibility situations, contact the local field office.

A careful review of the eligibility documents will help determine the applicant's qualification for bond funds and choice of loan type.

FUNDING SOURCES FOR CAL-VET LOANS

Funds to make Cal-Vet loans are obtained through the issuance and sale of General Obligation and Revenue Bonds. These bonds are tax-exempt, self-liquidating and are repaid by the veterans' participation in the loan program. There is no cost to California taxpayers. Federal law places restrictions on the use of these bond funds. Applicants must qualify for use of funds from the General Obligation Bonds, Revenue Bonds or the unrestricted bond funds.

The interest rate charged on the Cal-Vet loan is determined by the source of the bond fund.

The amount of funds from each of the three sources is finite, so it is important to determine the availability of funds by calling the district office or checking the Cal-Vet web site. The submittal of a loan application will reserve funds as of the application date, or advise the broker that funds are not available. The interest rate charged on the Cal-Vet loan is determined by the source of the bond fund.

Revenue Bond funds are limited to first-time home buyers, unless the property being purchased is in a designated targeted area. First-time home buyers are defined as both veteran and spouse who have not owned a home used as their principal residence during the past three years. Targeted areas are defined by the Federal Tax Act as census tracts in which seventy percent or more of the families have an income which is eighty percent or less of the statewide median family income or areas of chronic economic distress. To determine if the property is in a targeted area, the following is needed:

- Find the census tract by inputting the street address in the web site at www.ffiec.gov/geocode/default.htm
- Check the listing of target area census tracts

To use Revenue Bond funds, the applicants must not exceed the income limitation and the purchase price limitation of the home for the area. The income limit refers to annual family income from all sources (which may include income not being used for underwriting the loan). Recent changes in the federal law restricting Revenue Bonds have made applicants subject to large and small family income limits. The form L-10 provides the new income limits. A determination must be made of the "full time members of the household". These include the following:

- All adults who will reside in the home.
- Children, including children expected to be born to pregnant women; children in the process of being adopted; children whose custody is being obtained by an adult member of the household; children subject to a joint custody agreement who will live in the home at least 50% of the time; children who are temporarily absent due to a custody order; and children who are away at school but who live with the family during recesses.
- Live-in attendants.

The "gross family income" is the annualized income (monthly income multiplied by twelve) of those individuals who will both reside in the property *and* be liable on the loan. For use of Revenue bonds only the income of the veteran and spouse would be counted.

The purchase price limits differ for new homes compared to existing homes, and the limits are higher for homes in the targeted areas. The income and purchase price limits are indicated on the form L-10 in the loan application package. The L-10 form is updated as limits are periodically changed; it is important to check with the district office or the web site. Use of Revenue Bond funds creates the potential for federal recapture tax upon the sale or transfer of the home. Additional documentation is required for the use of Revenue Bond funds, including:

- Purchasers Affidavit (form A2)
- Sellers Affidavit (form A3)
- Notice Regarding Potential for Recapture Tax
- Signed Copies of federal tax returns for the past three years

If the applicant has only peacetime-era service, he/she must be able to qualify for Revenue Bonds under the restrictions noted above. Otherwise, a Cal-Vet loan cannot be made.

Peacetime-era veterans may **ONLY** use Revenue Bond funds. If the applicant has only peacetime-era service, he/she must be able to qualify for Revenue Bonds under the restrictions noted above. Otherwise, a Cal-Vet loan cannot be made.

General Obligation Bond funds may be used for wartime-era veterans who apply within thirty years of their release from active duty AND had active military service prior to January 1, 1977. Otherwise, there are no income or purchase price restrictions on the use of these funds for qualified veterans. Only these funds can be used to make loans on mobile homes in rental parks.

Unrestricted funds are generated by payments made on bonds sold prior to the federal restrictions or on payments not needed for debt service on the bonds. These funds may be used only for wartime-era veterans. There are no other restrictions on the use of these funds.

The bond funds are subject to availability of the funds.

A careful review of the applicant's qualification for the bond funds will place them in a fund that provides the best interest rate and avoids making an application for which there are no funds available.

USE OF THE ELIGIBILITY/FUNDING WORKSHEET

The Cal-Vet Eligibility/Funding Worksheet is a valuable guide to determine the source of funds for the applicant's loan. Checking the boxes and answering the questions will lead to the selection of the proper source of funds (or advise that no funds are available). The mortgage broker should complete this form if possible and contact the local Field Office to be assured that funds are available for the applicant.

The form first determines that the applicant is an eligible veteran. It determines if the applicant meets the restrictions for Revenue Bonds. If not, the chart leads to questions for qualification for General Obligation Bonds. If not, it leads either to use of the Unrestricted funds or to no funds available.

The bond funds are subject to availability of the funds. The funds are reserved as of the application date (the date that the application is received in the appropriate Cal-Vet field office). Some applicants qualify for more than one source of the funds. Typically, the broker will put the applicant into the bond fund that is at the lowest interest rate.

About the Cal-Vet Loan

- Loan Types
 - Cal-Vet 97 Loan
 - Cal-Vet 80/20 Loan
 - Cal-Vet VA Loan
- Loan to Value
- Fees
- Impound Accounts
 - Property Taxes
 - Insurances
- Home Protection Plan (Insurance)
- Estimating the Payment
- Maximum Loan Amounts
- Interest Rates
- Down Payment
- Types of Homes
- Property Requirements
- Prequalification

LOAN TYPES

Cal-Vet offers three types of loans that differ in down payment, fees and documentation required for processing. The mortgage broker should carefully consider each type of loan to determine which loan best meets the applicant's needs in terms of the money needed to close, overall cost savings and processing time. Each of the funding sources may be used with any of the loan types.

Cal-Vet 97 Loan

This loan is named for the maximum loan to value of 97%; the maximum loan amount is 97% of the sales price, or appraised value, whichever is lower. The documentation for processing these loans is reduced compared to the Cal-Vet VA loans and the processing time is faster. The features of this loan are as follows:

There may be a savings to the applicants to have them put 5% down and finance the loan guaranty fee of 1.5% instead of putting 3% down and paying the 2% loan guaranty fee in escrow.

- Minimum down payment of 3%
- May be used on any type of property (including new homes, existing homes, condominiums, mobile homes in rental parks).
- May be used in regular loans, construction loans, rehabilitation loans.
- The loan guaranty fee (funding fee) is paid to a private insurer. The fee is 2% of the loan amount for loans with down payments of less than 5%; 1.5% with a down payment of 5% to less than 10%; 1.25% with a down payment of 10% to less than 20%.
- Since the loan to value ratio cannot exceed 97%, the loan guaranty fee (funding fee) cannot be financed with the loan unless the applicant is putting at least 5% down.

Note: there is almost always an advantage to the applicants to have them put 5% down and finance the loan guaranty fee of 1.5% above the base loan amount instead of putting 3% down and paying the 2% loan guaranty fee in escrow.

- Loan Origination Fee of 1% (of the base loan amount) is required in escrow.
- The documentation required for the loan is less (does not have the VA forms or requirements). The VA Certificate of Eligibility is not required. As an example of reduced documentation, if the source of the closing costs/down payment are shown on the application, no further documentation (bank statements, etc) are needed to verify the assets.
- The maximum loan amount will conform to Fannie Mae limits effective January 1, 2003.

Cal-Vet 80/20 Loan

This loan is named for the minimum down payment of 20% of the purchase price. This loan is designed for the well-qualified applicant who is able to make the larger down payment. The documentation requirements are vastly reduced and the processing time should be short for these loans. Some features of this loan are:

- Minimum down payment of 20%. The down payment may be from a gift, loan, secondary financing or the applicant's own resources. Transactions within families involving a substantial gift of equity may be structured for this type of loan.
- No loan guaranty (funding fee) will be charged, as no loan guaranty will be obtained.
- Loan Origination Fee of 1% (of the loan amount) is required in escrow.
- The loan may be used for any type of property (new or existing).
- The documentation required for processing is minimal. Income verification is only needed with lower credit scores. Assets for the down payment need only to be shown on the loan application. Rules regarding credit derogatories and length of employment may be relaxed.
- The maximum loan amount will conform to Fannie Mae limits effective January 1, 2003. (Use of Revenue Bond funds may affect the maximum loan available).

Cal-Vet VA Loan

Cal-Vet is an approved VA lender. As such, these loans are processed in compliance with the VA rules and requirements as noted in the *VA Lender Handbook*, including the credit standards, documentation, fees and closing requirements. State law (Military and Veterans Code) imposes some limitations to typical VA loan features affecting the down payment requirement and eligibility. Features of the Cal-Vet VA loan are as follows:

- Minimum down payment of 2%
- May be used on new or existing homes; the loan can be used on new construction if the home has a VA Master Certificate of Reasonable Value (MCRV). It also may be possible to obtain an existing appraisal on new construction if certain VA documentation can be obtained from the builder.
- The loan may be used on conventional single family residences and on condominium/PUD properties in VA approved homeowner associations. The loan may not be used for mobile home properties.
- The loan guaranty fee is charged according to the VA schedule (1.25% to 3%), and may be financed with the loan. The fee is waived for veterans with VA disability ratings of 10% or more (verified by the VA with the Benefit Related Indebtedness form).
- The loan may only be used if the veteran has his/her full VA entitlement.
- Loan processing requires all of the VA documentation and procedures, as noted in the VA Lenders Handbook.
- The maximum loan is the current VA loan maximum (currently \$240,000); use of Revenue Bond funds may affect the maximum loan available.

Cal-Vet is an
approved VA lender.

LOAN TO VALUE

Cal-Vet will base the loan amount on the loan to value ratio for the loan type selected. The purchase price or the market value (as set by the appraisal), whichever is lower, is used.

FEES

Cal-Vet charges a **Loan Origination Fee** on all loans, in the amount of 1% of the base loan amount. The fee must be paid in escrow – it cannot be financed with the loan or waived. The fee may be paid by the applicant, by the seller or split by arrangement. The fee is typically paid in escrow as compensation for the origination, either to the certified mortgage broker or retained by Cal-Vet.

Cal-Vet does not
charge an application
fee on loans originated
by mortgage brokers.

Cal-Vet does not charge an application fee on loans originated by mortgage brokers. A nominal fee of \$50 is charged on loan applications submitted directly by applicants to Cal-Vet. If this fee is submitted on a mortgage broker originated loan, it is returned to the broker.

The appraisal fee must be paid by the applicant to cover the cost of the appraisal. In no instance can the fee be included in the loan nor paid at the close of escrow.

Cal-Vet loans are normally processed by the loan processing department at Sacramento headquarters. The appraisal is ordered by Cal-Vet utilizing the field office fee panel. The selected appraiser will contact the person designated to meet the appraiser at the subject site. At that time payment for the appraisal will be paid to the selected appraiser.

The appraisal fee must
be paid by the
applicant to cover the
cost of the appraisal.

For Cal-Vet/VA loans, the appraisal fee will be paid at the time of submission of the application. The check must be made out to "California Department of Veterans Affairs" or "CDVA". The department will then order the appraisal from the VA fee panel. The selected appraiser will then contact the person designated to meet the appraiser for entry to the property.

Cal-Vet will obtain a loan guaranty fee (funding fee) on all loans in which the loan to value exceeds 80%. This one-time fee is in lieu of any monthly mortgage insurance (PMI). The fee may be paid by the applicant or the seller, or split. For the Cal-Vet VA loans, the fee may be financed with the loan (or waived if the applicant has a 10% or higher VA disability rating). The fee ranges from 1.25% to 3%. For Cal-Vet 97 loans, the loan guaranty is obtained by a private insurer. It may be financed with the loan if the applicant is making a minimum 5% down payment. Otherwise, it must be paid in escrow.

The escrow holder will charge fees associated with the closing of escrow and issuance of the title insurance. For Cal-Vet VA loans, the VA has rules regarding which fees may be paid by the applicant and which fees can never be paid by the applicant. For all other Cal-Vet loans, the fees and costs of closing escrow are negotiable between the applicant and the seller.

Cal-Vet charges interest from the date that the check is cut until the end of the month. The calculation is based upon the "total loan amount" multiplied by the interest rate, divided by 365 (days in a year), multiplied by the number of days remaining in the month (including the date of issue for the check). This prepaid interest is collected in advance for the month the loan closes. There is no payment due on the first of the following month, as Cal-Vet starts collecting interest in arrears. The applicant will have thirty to sixty days before the first regular payment is due.

IMPOUND ACCOUNTS

Cal-Vet collects funds to hold in the various impound accounts, including accounts for the property taxes, fire insurance, disaster indemnity fund, life insurance, optional insurance (including disability). The amount collected for each account is determined as follows:

Property Taxes

Cal-Vet pays the property taxes on loans as they become due twice each year. To assure that there are sufficient funds in the impound account, Cal-Vet may require that the current property tax bill be paid in escrow and an amount be collected. To estimate the monthly property tax amount, Cal-Vet uses 1.25% of the market value of the property divided by twelve (months). High costs associated with special assessments or Mello Roos may add to this base amount for the tax estimate. The schedule to determine how much is to be collected in escrow is as follows:

- Beginning October 1 (one month advance notice) through December every year, the following statement is placed on the escrow instructions: *If this escrow closes on or after November 1, you will be responsible for the payment of the first installment of the current years' tax bill. Additionally you must provide the Department with a copy of the current years' property tax bill.*
- Beginning January 1 (one month advance notice) through April every year, the following statement is placed in the escrow instructions along with any current statement regarding taxes: *If this escrow closes on or after February 1, you will be responsible for payment of the 2nd installment of the current years' property tax bill.*

- For escrows closing in April through October, the impound amount will be collected as follows:

April, collect 1 month impound
May, collect 2 months impound
June, collect 3 months impound
July, collect 4 months impound
August, collect 5 months impound

September collect 6 months impound
October, collect 7 months impound
November, collect 2 months impound
December, collect 3 months impound
January, collect 4 months impound

Note: February and March closings do not require collection as taxes will not be paid until December 10 for 1st installment and the department will have collected at least 8 to 9 months of impounds.

Fire and Hazard Insurance

Cal-Vet provides the fire and hazard insurance coverage through a master policy, and must collect sufficient funds in escrow to pay the first year premium and begin collecting for the next year's premium. Therefore, escrow will collect fourteen months of fire insurance premium for the impound account (except on properties that do not have Cal-Vet insurance coverage, such as mobile homes or some condominium properties).

Disaster Indemnity Fund

Cal-Vet provides coverage for structural damage due to earthquake or flood through the disaster indemnity fund. Escrow will collect fourteen months of disaster indemnity premium for the impound account. All properties are covered under this program.

Life Insurance

For applicants under the age of 62, life insurance is provided. Two months of premium is collected in escrow for the impound account. The applicant may select other optional insurance coverages (life and disability), but these premium charges will be made after the close of escrow.

HOME PROTECTION PLAN (Insurance)

Cal-Vet provides several insurance programs that provide protection to the veteran's family and to the investment. Printed brochures are given to the applicants that provide detail on the programs and the coverages.

The **Fire and Hazard Insurance** provides coverage for all real property improvements. The premium is based upon the replacement cost new of the improvements as determined in the appraisal process, but the actual coverage is guaranteed replacement cost. The premium is negotiated as part of a master policy. All Cal-Vet properties are covered except for mobile homes and those condominiums that have coverage through the homeowners association. The applicants would need to obtain their own coverage for personal property and liability, if desired. The claims are adjusted by a contracted adjustment company.

The **Disaster Indemnity Fund** provides coverage for structural damage due to earthquake or flood (including mudslide). The premium is based upon the replacement cost new and the coverage is guaranteed replacement cost. The fund is protected by additional insurance obtained to cover losses that exceed the amount of the fund. All Cal-Vet properties are covered by the fund. For properties located in designated flood zones, the fund still provides coverage, but Cal-Vet also obtains flood insurance through FEMA at no additional cost to the applicant. The claims are adjusted by a contracted adjustment company.

Cal-Vet provides several insurance programs that provide protection to the veteran's family and to the investment.

The **Life Insurance** is provided through a master policy with a private insurer. For veterans under the age of 62, there is a mandatory requirement for limited guaranteed issue coverage. Premiums are collected to provide coverage for one to five years (determined by level of risk) of principal and interest payments, upon the death of the insured. The insurance company also provides optional insurance coverages, including life insurance coverage to pay off the loan balance, life insurance coverage for the spouse, and disability insurance coverage for the veteran.

ESTIMATING THE PAYMENT

The mortgage broker should be able to estimate the principal and interest portion of the monthly payment based upon the loan amount financed (including the funding fee, if applicable) and the loan term. The loan term for most Cal-Vet loans is 30 years, except for mobile home loans in parks.

MAXIMUM LOAN AMOUNTS

Cal-Vet maximum loan amounts are subject to change and the broker should check the Cal-Vet web site www.cdva.ca.gov or contact the local district office. The loan maximum differs for the type of property. If Revenue Bonds are used to fund the loan, the maximum purchase price limitation on the bonds may affect the maximum loan amount. The maximum loan amounts are as follows:

- For single family residences built on site (conventional houses, condominiums, separate units of attached housing, homes in planned unit developments, manufactured homes on homesites), the Cal-Vet maximum loan amount conforms to the Fannie Mae maximum level.
- For mobile homes in rental parks, the maximum loan is \$70,000.
- For farm loans, the maximum loan is \$300,000.
- An applicant may receive up to \$5000 in additional loan funds for an active or a passive solar heating system for the house. The passive solar system must be designed to collect, store and distribute heat.

For Cal-Vet VA loans, the loan amount is limited to the maximum VA loan amount. Currently, the maximum VA loan amount is \$240,000. If the loan guaranty fee (funding fee) is financed, it must be included in the maximum loan of \$240,000; the VA does not allow the total loan to exceed the maximum. For a Cal-Vet 97 loan, if the loan guaranty fee is financed with the loan, the total loan may exceed the current loan limit to accommodate the financed fee, assuming the down payment requirement is met.

INTEREST RATES

Cal-Vet sets interest rates for loans based upon the bond fund used to make the loan. Rates may change at any time, so mortgage brokers should determine the current interest rate by contacting the field office or checking the Cal-Vet web site. Once a loan application is received by the Cal-Vet field office, the interest rate is locked-in. If the interest rate reduces during the processing of the loan – up until actual funding – the applicant will receive the lower rate.

Cal-Vet is able to set the rate under a methodology approved by the Veterans Board and the Veterans Finance Committee that allows the Division Chief to respond to market changes and costs of funds in a timely manner. Cal-Vet may change the rate without advance notice.

Cal-Vet sets interest rates for loans based upon the bond fund used to make the loan.

It is very unlikely that the interest rate will change at all during the life of the loan, barring a financial catastrophe to CDVA.

Cal-Vet uses a flexible interest rate. A flexible rate means that the interest rate on the loan can increase or decrease during the life of the loan. It differs from an adjustable rate mortgage common in real estate lending. Adjustable rate mortgages are tied to a market index and can change several times per year. The Cal-Vet rate is tied to the cost of the bonds sold to finance the specific loans financed with the bonds plus the

costs of program operation. It is very unlikely that the interest rate will change at all during the life of the loan, barring a financial catastrophe to CDVA. Since the bonds used to finance the loan have already been sold and costs established, the interest rate to the borrower should be stable. In any event, the cap rate is one-half percent above the initial loan rate. By having this small flexibility in the rate, Cal-Vet is able to safeguard the program and maintain a high bond rating that leads to passing on interest savings to loan holders.

DOWN PAYMENT

The amount of the down payment is determined by the type of loan selected and the loan amount for which the applicant applies. The down payment may come from the applicant's own resources, or may be from a gift or unsecured loan. Documentation to verify the source of the down payment is required for all Cal-Vet VA loans and may be required for other Cal-Vet loans. If any portion of the down payment is from a loan, the liability must be included in the underwriting debt-to-income ratio.

Cal-Vet does allow secondary financing (from another lender) in the purchase of a home. The combined recorded financing (Cal-Vet loan plus the second) cannot exceed 98% of the purchase price or market value, whichever is lower. If the second loan is from a public housing agency or program, the combined financing may be 100%. On all secondary financing, Cal-Vet will require documentation, including copies of the signed Note and Deed of Trust, and a signed original Subordination Agreement.

Cal-Vet does allow
secondary financing
(from another lender)
in the purchase of a
home.

TYPES OF HOMES

Cal-Vet loans only on single family residences, located in the State of California. The properties include the following types:

- Conventional site-built (stick-built) houses
- Half-plex or other separate units of attached housing
- Condominiums and townhomes
- Homes in Planned Unit Developments
- Manufactured homes permanently attached on individual homesites (fee title to land)
- Manufactured (mobile homes) in rental parks*
*Funded only with G.O. Bonds and at 1% higher interest rate
- Farm loan properties may have a residence or not.

PROPERTY REQUIREMENTS

All properties purchased must meet the building code of the county or local jurisdiction, be in compliance with zoning codes, receive clearances on appropriate inspections and meet health and safety standards.

- Cal-Vet relies on the appraiser to note any visible code deficiencies. If the property has had an addition, garage conversion or major remodeling, Cal-Vet does require evidence of code compliance. Evidence may include a copy of the finalized building permit, current inspection by the local building department, or an inspection by a licensed contractor (the applicant must submit a statement requesting acceptance of this inspection).
- Cal-Vet requires a Structural Pest Inspection and clearance from a licensed termite company on all existing homes. The report cannot be over six months old at the time of application for the loan. Requirements listed under Section 1 of the report must receive clearance.
- A report on the condition of the roof may be required.
- If the (existing) home is on a septic system, the system must be inspected by the local health department or by a septic service company. The system must meet local code.
- If the (existing) home is on a well or non-public water system, the water system must be inspected and approved by the county health department or a company licensed to do water system inspections.
- Cal-Vet may require that an all-weather surface be installed on the driveway from the county road to the parking location.
- The property must have electrical utilities to the site.

Other inspections may be required if noted by the appraiser, such as foundation or electrical inspections. The appraiser may note repairs or inspections as conditions of the appraisal.

Cal-Vet typically requires that all inspections and clearances be submitted prior to issuance of the escrow instructions. Cal-Vet may allow the termite clearance, roof clearance and evidence of completion of minor repairs to be submitted in escrow.

PREQUALIFICATION

If there are questions or concerns about the type of loan, funding, eligibility, credit qualification or other matters regarding the Cal-Vet loan, the mortgage broker is encouraged to have the applicant prequalified for the loan. The Prequalification Request form may be obtained from the Cal-Vet web site, a Cal-Vet district office or from the Call Center (800-952-5626). The district office will perform the prequalification and provide information useful in choosing the best loan for the applicant.

Processing the Loan

- Processing Stages
- Submission of URLA
- Review of the URLA
- Full Compliance
- Processing Time
- Applicant Interview
- VA Eligibility Center
- Underwriting Standards
- Income Analysis
- Documentation
- Credit Report
- Red Flags and Tips
- Review of the Purchase Contract
- Preliminary Title Report
- Appraisal
- Property Clearances
- Homeowners Association
- Flood Zones

PROCESSING STAGES

The loan application must be submitted by a certified mortgage broker (a loan officer or mortgage broker working for a certified company who has received the Training Certificate from Cal-Vet) in order for the broker to receive compensation. The application must be submitted to the Cal-Vet field office that handles the geographic area in which the property selection is located (check with the field office, the web site www.cdva.ca.gov or the Cal-Vet Call Center 800-952-5626).

Applications may be obtained by calling a Cal-Vet field office, by calling the Call Center or may be downloaded from the Cal-Vet web site. Since Cal-Vet uses the standard Uniform Residential Loan Application (form 1003) and uses many of the VA forms, a broker should have the forms necessary to do the loan submittal.

The application must be submitted to the Cal-Vet field office that handles the geographic area in which the property selection is located.

The Cal-Vet loan processing cycle is as follows:

- The loan application is received by Cal-Vet and is reviewed for completeness. It will be determined if the applicant is eligible, that funds are available and that there are no apparent underwriting issues that would preclude the loan. Cal-Vet staff may contact the broker for additional information or documentation.
- The Cal-Vet field office will issue an acknowledgement letter confirming that the applicant is eligible and then forwards the file to the Loan Processing Unit for underwriting. The Loan Processing Unit will issue either an Additional Document letter or Commitment letter. The appraisal will be ordered when the commitment letter is issued.
- Upon receipt of the appraisal, it will be reviewed and a Loan Approval letter will be issued to the broker and applicant. The letter will list any requirements that must be submitted to complete loan processing. Some requirements may be needed prior to issuance of the escrow instructions to the escrow holder. Some requirements may be collected in escrow.
- The loan package is submitted to the Escrow Unit in HQ, where the loan documents and instructions are issued to the escrow holder. The escrow holder will contact the applicant to close the escrow. The escrow holder will return the completed loan documents to Cal-Vet and funds will be issued to close the loan.

SUBMISSION OF THE URLA (1003)

The broker should submit the application (URLA form 1003) to Cal-Vet as soon as possible. The application is filed (date of application) on the date it is received by the district office. If filed in person, the date of application is the date it is submitted and stamped, printed or written upon by the receiving office. If filed by mail, an application shall be deemed filed on the date of the postmark; if the postmark is illegible or otherwise unavailable, the date of application is the date it is physically received by Cal-Vet. If filed by facsimile or other electronic means available to Cal-Vet, it shall be deemed filed on the date it was transmitted and received. The application may be initially processed based upon the electronic forms, but hardcopy originals of certain signed documents must be submitted.

Receipt of the application by Cal-Vet "locks in" the interest rate and reserves the funds.

Receipt of the application by Cal-Vet "locks in" the interest rate and reserves the funds. This is critical in times when the interest rate may be changing or the availability of certain funds is limited. If Cal-Vet reduces the interest rate during the processing of the loan (prior to issuance of the funding check to escrow), the applicant will receive the lower rate. Early submission also allows Cal-Vet staff to start on the preliminary review to determine eligibility. Mortgage brokers are

requested to not "hold" the submittal of the application while waiting for further documentation, but to get the application submitted to Cal-Vet. **The time that elapses between the applicant entering into a contract to**

purchase a home and the submittal of the application by the broker is beyond the control of Cal-Vet, and not part of the processing time.

REVIEW OF THE URLA (FORM 1003)

It is the Mortgage Brokers responsibility to make sure the URLA is properly completed. Any errors or omissions in the completion of URLA can cause a delay in the processing of the Cal-Vet Home Loan application. The following is a list of some key items in the URLA that must be completed:

- Loan amount
- Subject property – there must be a specific property identified
- Year built – this is very useful. If new construction, estimate month and year of estimated completion.
- Title – the applicant(s) name should be as they are to appear on title
- Source of down payment including account numbers and name of institution
- If the applicant is married, we need that information on the spouse
- The **veteran** must be listed as the Borrower; spouse is the Co-Borrower
- Employer information – this needs to be complete to assure ease of contact, verification and documentation
- Prior employment is critical if current employment is less than two years
- All sources of monthly income should be separately listed and they should not be combined except in the Total. All sources are needed to key verification.
- Assets – the assets should be sufficient to show the funds needed for the down payment and closing costs. Verification data is important (addresses, account numbers).
- All liabilities need to be shown. The support obligations (alimony child support) need to be verified.
- Real estate owned – it should be made clear the applicant's intentions on disposition of the property (sell, rent).
- The details of the transaction need to be accurate, especially in the purchase price, loan amount and funding fee.
- The declarations must be accurate for both applicants. Item (m) is important to confirm status of a first time home buyer.
- The URLA must be signed by **both** applicants.
- The broker needs to complete the interviewer section, providing good contact data.

FULL COMPLIANCE

Cal-Vet needs certain minimum documentation to begin the preliminary review of the application. This documentation is defined as full compliance. The documents needed for full compliance are:

- Loan Application on a specific property (form 1003)
- Military document(s) establishing eligibility (typically the DD-214)
- Income verification (pay stubs, W-2 forms)
- Signed Purchase Contract (sales agreement with all addendums, and TDS)
- Preliminary Title Report

Mortgage brokers are requested to not "hold" the submittal of the application, waiting for further documentation, but to get the application submitted to Cal-Vet.

Note: The broker should make every effort to submit these documents as soon after the submittal of the loan application as possible.

PROCESSING TIME

Under the Military and Veterans Code, and administrative regulations, Cal-Vet is required to process the loans on existing properties in an average time of thirty (30) days or less. The processing time is defined as the

calendar days between receipt of **full compliance** documentation of the application to the issuance of the loan documents to the escrow holder. The loan documents include the escrow instructions, Cal-Vet Loan Contract and Memorandum Agreement of Sale. **The loan processing time does not include any time over which Cal-Vet has no control**, such as time prior to the submittal of the **full compliance** documentation or time after the issuance of loan documents that the escrow holder takes to close the escrow. Therefore, brokers should plan to contract for at least forty-five total days. Brokers will be able to count on Cal-Vet meeting this time frame. Of course, unusual circumstances such as the resolution of low appraisal situations, unusual underwriting situations, lengthy property repairs, resolution of title issues, etc. may affect processing time on individual cases.

APPLICANT INTERVIEW

Brokers are encouraged to do a thorough interview with applicants. A good interview will reduce the processing time and reduce any misunderstandings. The broker should look for problem areas and anticipate the need for documentation, property inspections, etc.

VA ELIGIBILITY CENTER

The mortgage broker will need the VA Certificate of Eligibility from the VA Eligibility Center on all Cal-Vet VA loans. Even if the applicant has a previously issued certificate, Cal-Vet requires a current certificate (less than six months old). The Request for Determination of Eligibility form (VA 26-1805) must be signed by the veteran, and sent with a copy of the DD-214. The VA Eligibility Center is located at:

If the applicant has a VA disability rating of 10% or more, he/she may have the funding fee waived on a Cal-Vet VA loan.

Los Angeles VA Eligibility Center
P.O. Box 240097
Los Angeles, CA 90024
Toll Free 1-888-487-1970
FAX 310-235-7613

Lenders may obtain the Certificate of Eligibility via VA's internet application, ACE (Automated Certificate of Eligibility).

If the applicant has a VA disability rating of 10% or more, he/she may have the funding fee waived on a Cal-Vet VA loan. The VA Benefit of Indebtedness form (VA Form 26-8937) must be completed and sent to the VA Eligibility Center.

UNDERWRITING STANDARDS

Cal-Vet underwrites the loans using the VA credit guidelines. All mortgage brokers should be familiar with, and have a copy of the VA Lenders Handbook (VA Pamphlet 26-7). This handbook may be obtained from the local VA Regional Office or may be downloaded from the VA web site at www.va.gov. The handbook is lengthy and very detailed.

The VA has a quick reference guide of the VA credit standards, prepared for the televised VA Lender Training. This training is done periodically by the VA. This guide discusses:

- Standard and Alternative Documentation
- Stability and Use of Income
- Self Employment Income, and other types of income
- Credit (report) standards

Cal-Vet underwrites the loans using the VA credit guidelines.

INCOME ANALYSIS

The mortgage brokers will complete the Income Analysis form for each current job of the applicants. A separate form must be used – the jobs cannot be combined on a single form. The figures and calculations on the form must be consistent with the income documentation provided. The final determination of income must be consistent with the data on the form and with the VA credit standards. The income determined on the form must be used in the Loan Analysis prepared by the mortgage broker.

Indicate on the form whether the analysis is for the veteran or the spouse, providing the name and social security number. The top portion is for the data shown on the current month's pay stubs. Convert the income to monthly income by using the appropriate factor. The second section is for the year-to-date income. Two lines are provided, as there may be more than one source (pay stub and verification of employment form). The third section is for data from the W-2 forms, for the past two years.

The fourth section is used if the income is from self employment. Data is obtained from review of the federal tax returns for the past two years, plus from a year-to-date profit and loss statement for the current year. Typically, the data from schedule C of the tax returns, the profit and loss statement, is used to determine the net profit for use in the income analysis. The credit guidelines allow credits for depreciation, business interest and other fees to be credited back to the net income.

An analysis is done of the data to determine the monthly income amount to be used for the loan analysis. The figure used should be consistent with the data. Pay stubs offer the most current data, but may fluctuate widely due to changes in hours, overtime, bonuses or other compensation. Care should be taken to determine the base hourly rate, and use additional income only if it meets the credit guidelines. Year-to-date income is a good indicator, if the income does fluctuate. The W-2 forms show the historical yearly income. Typically the income is increasing each year. Of course, job changes may render earlier W-2 data irrelevant to calculating current income. The final monthly income figure is noted at the bottom of the form, and the comments section is used to make explanations or indicate the reasoning used in the analysis.

The documentation of the income should be placed behind this form in the file. If alternative documentation is used, telephone verification should be provided.

DOCUMENTATION

The documentation standards are highest for the VA loans. Documentation of income or deposits must be by use of originals or certified copies (copies or fax copies are not acceptable). If alternative documentation is used to verify employment, the mortgage broker must obtain a Telephone Verification. The documentation required for the Cal-vet VA loan is specified by the VA Lenders Handbook.

Use of the Cal-Vet 97 loan reduces the required documentation. Tax returns are not routinely required (unless needed for income verification or to meet Revenue Bond loan documentation). Documentation of the funds for the down payment and closing is needed only if not clearly shown on the loan application.

CREDIT REPORT

The mortgage broker will submit a three-file merged credit report that is dated within thirty days of the submission of the loan application to Cal-Vet. Cal-Vet will obtain a three-file merged credit report with credit information from Equifax, Trans Union and Experian.

The credit report is a key tool used in the underwriting of the loan. Some key points in using the report:

- The credit report should be compared to the loan application to

Credit scores are not used by Cal-Vet as an underwriting standard.

determine if there are any loans indicated by the borrower that are not on the credit report. For a Cal-Vet VA loan, loans not shown on the credit report require the VA Verification of Loan form.

- All long term debt (duration to exceed ten months or more from date of closing) must be shown on the Loan Analysis, including debts shown on the credit report and loan application. Debt of less than ten months duration (short term) should be considered if the payment will significantly affect the applicant's ability to pay the mortgage.
- For any account showing a derogatory payment record in the past twelve months, an acceptable letter of explanation is required from the applicant. The letter must indicate the reason for the late payment and how the situation has been resolved so that the problem will not recur.
- All liens, judgments and most collection accounts must be paid in full and verified.
- If a credit counseling plan is shown, Cal-Vet requires evidence of twelve months of satisfactory payment on the plan and approval by the credit counseling agency.

Credit scores are not used by Cal-Vet as an underwriting standard. However, credit scores are good indicators of credit risk. If the credit scores are below 620, extra care must be taken to review the credit report for all potential problems. High credit scores (over 680) may be used as a compensating factor in a marginal case.

If there are few or no credit accounts on the report, the broker needs to obtain credit information from other sources, such as from the applicant's landlord, utility companies or other creditors that can rate the payment record of the applicant.

"RED FLAGS" AND TIPS

Cal-Vet generally uses the underwriting guidelines indicated in VA Lenders Handbook. Some items noted as deficiencies in loans processed include:

- If alternative documentation is used to verify employment, a Telephone Verification must be obtained.
- On Cal-Vet VA loans, the Verification of Rent form is required for the applicant's rental record over the past two years.
- If a power of attorney form is needed, Cal-Vet requires the CDVA Power of Attorney form. Contact Cal-Vet to obtain the form.
- On Cal-Vet VA loans, the VA forms must be originals. Income and asset documentation must be originals or certified copies.

REVIEW OF THE PURCHASE CONTRACT

Cal-Vet requires the full real estate purchase contract, signed by the buyers and sellers, and including all addendums (signed). Cal-Vet requires a copy of the Transfer Disclosure Statement (TDS). The contract should state the sales price and terms of the loan, including who is to pay costs and fees.

If the transaction has a non-standard sales agreement, the escrow instructions must state that they are the written agreement between the parties to the transaction and there are no other agreements.

PRELIMINARY TITLE REPORT

Cal-Vet requires a Preliminary Title Report from an open escrow that is dated less than thirty days from the date the application is submitted to Cal-Vet. The report will be reviewed for items including:

- The applicants are not shown in vesting to have an interest in the property (unless the application is for a new construction loan and the home is not completed).
- The sellers are identified in the vesting, and are consistent with all documentation requiring seller's signatures.

The escrow of a Cal-Vet loan can only be handled by an approved escrow or title company.

- The legal description is accurate and can be run out on the plat map(s). The plat map must be the one referred to in the legal description (showing the recorders map information).
- Any encroachments noted must be resolved.
- All easements must be located and determined as not adverse, and appropriate endorsements to the policy ordered if needed.
- If the property is located on a private road, the legal description must contain an access easement from the property to the public way. Private roads must provide all-weather access to the property and show evidence of periodic maintenance. In some cases a road maintenance agreement may be required.
- The tax parcel number shown in the title report must be separately verified, by obtaining a copy of the property tax bill.
- Title must be held in fee simple.

The escrow of a Cal-Vet loan can only be handled by an approved escrow or title company. All title insurance companies are approved. Each Cal-Vet field office has a current listing of the approved escrow and title companies. If the escrow company selected by the broker is not on the approved list, Cal-Vet will issue the escrow instructions to the title company, or wait until the escrow company submits the documentation and is approved to handle Cal-Vet transactions.

APPRAISAL

If the loan is Cal-Vet VA, the appraisal is ordered by Cal-Vet staff through the VA online system. Cal-Vet will order the appraisal at the earliest stage, and fax/mail the information to the VA assigned appraiser. The appraisal fee must be submitted as a check, made out to "Cal-Vet" or "CDVA" at the time of the loan submittal. Cal-Vet will pay the appraiser upon receipt of the invoice from the appraiser. The appraisal fee schedule is as follows:

- | | |
|----------------------|-------------------|
| ▪ Existing residence | \$350.00 – 400.00 |
| ▪ New construction | \$400.00 – 450.00 |
| ▪ Condo (existing) | \$375.00 – 425.00 |
| ▪ Condo (new) | \$425.00 – 450.00 |

Cal-Vet staff will
review all appraisals.

For other Cal-Vet loans, the appraisal must be ordered from the Cal-Vet Fee Appraiser Panel for each district. The appraisers are on the Panel and have specified the counties in which they will do appraisals. Cal-Vet staff will order the appraisal. For all appraisals ordered from the Cal-Vet Panel, the applicant pays the appraiser directly – the appraisal fee is not submitted to Cal-Vet.

Cal-Vet staff will review all appraisals. Staff have been LAPP approved by VA to review the VA appraisals and issue the Lenders Notice of Value (LNOV). The review is done in a timely manner to determine the value used for loan underwriting and to identify the property requirements that must be met.

If the appraised value is below the sales price one or more of the following options will be needed in order to proceed:

- The broker may contact the buyer, seller and real estate agents to seek a renegotiation of the sales price. If the price is reduced, a signed addendum to the sales contract is required.
- The applicant may submit a written appeal to increase the appraised value. The appeal must provide comparable data or other justification to increase the appraisal. If a Cal-Vet VA loan, the VA allows the LAPP reviewer to increase the value up to 2%; otherwise it must be submitted to VA for review.
- The applicant may choose to accept the appraised value and make a larger down payment.

The appraiser will note any repair requirements that are a condition of the appraisal. These repairs must be done prior to the issuance of the escrow instructions. For a Cal-Vet VA loan, the appraiser must do a

reinspection of the home after the repairs are done. The reinspection will require a fee to be paid to Cal-Vet so that the appraiser can be paid. If the cost of the repairs are minor (less than \$500), the lender may certify the repairs without the appraiser reinspection.

PROPERTY CLEARANCES

The appropriate property inspections and clearances should be provided as soon as possible. Cal-Vet requirements are as follows:

- The termite inspection must be no more than six months old. Section one requirements must be complied with and have clearance. For the Cal-Vet VA loan, there must be a written acknowledgement that the repairs were done at no cost to the buyers. The termite clearance may be collected in escrow.
- A roof inspection (or certification) may be required. If the inspection is required, the clearance may be collected in escrow.
- All other property repairs/requirements indicated by the appraiser or lender must be complied with and evidence of completion provided prior to the issuance of the Cal-Vet escrow instructions. These cannot be collected in escrow.
- Any inspections of the water system, septic system, code compliance or other property inspections must be complied with and clearances provided to Cal-Vet prior to the issuance of the Cal-Vet escrow instructions.
- Cal-Vet will accept faxes of the inspection reports and clearances.

HOMEOWNERS ASSOCIATIONS

Cal-Vet does not routinely require documentation on the homeowners associations for condominium and planned unit development properties. If there is a homeowners association (for some properties, there may be more than one association), the mortgage broker does need to provide the following:

- Correct name of the association and the name, address and phone number of the HOA management company.
- Amount of the monthly association dues. The dues need to be factored in as a liability for the applicant in the loan analysis.
- Determine whether the association provides the fire insurance on the property, or whether the individual homeowner obtains insurance. If the association provides the fire insurance coverage, the mortgage broker is to provide:
 - Certificate showing the fire insurance coverage
 - Loss Payable Endorsement from the insurance carrier naming the California Department of Veterans Affairs as a loss payee on the policy. This may be collected in escrow.
- If there are any lawsuits involving the association, Cal-Vet needs to know about them.

Cal-Vet does not routinely require documentation on the homeowners associations for condominium and planned unit development properties.

FLOOD ZONES

The appraiser will determine whether the property is located in a designated flood zone. Cal-Vet may purchase properties in a flood zone. If the property is in a flood zone, the mortgage broker will need to obtain a copy of the Elevation Certificate if the home was built after 1974. The Elevation Certificate is obtained from the city/county building department, or may be available from the builder, appraiser, property surveyor or the seller.

- Originating the Loan
- Centralized Loan Processing
- Initial Action
- Status Checks
- Loan Approval Letter
- Reading the Good Faith Estimate

ORIGINATING THE LOAN

The mortgage broker must originate the loan with the Cal-Vet field office that handles the area in which the property is located. The broker should call the field office, the Cal-Vet Call Center (800-952-5626) or access the Cal-Vet web site (www.cdva.ca.gov) to determine the appropriate field office for the loan being submitted.

The field offices log in the loan, do initial data entry, do a preliminary review to assure the loan meets submittal standards and may obtain more information to assure that the applicant meets eligibility and funding qualifications. The package is sent via overnight mail to the centralized Loan Processing Unit.

The mortgage broker must originate the loan with the Cal-Vet field office that handles the area in which the property is located.

CENTRALIZED LOAN PROCESSING

Cal-Vet has centralized the processing of most new loans in the Loan Processing Unit in HQ. This shift in the loan processing workload from the field offices to the Loan Processing Unit has achieved efficiency and consistency through specialization.

INITIAL ACTION

The field offices will receive the loan application submittals. They will review the eligibility and funding worksheet completed by the mortgage broker. If the applicant is not eligible or there is no source of available funds, the mortgage broker will be notified immediately. Cal-Vet staff will do a preliminary review to check that there are no apparent credit problems that would lead to loan denial, and to determine what more information and documentation will be needed for underwriting. The mortgage broker and/or applicants may want to discuss the loan submittal with the district office staff and get a clear understanding of requirements and documents that will be needed.

STATUS CHECKS

Phone calls checking on the status of the loan are time consuming for Cal-Vet staff. Only the mortgage broker loan officer/loan processor who originated the loan or the applicants may inquire on the status, not the seller, real estate agents, etc. The broker should review the letters issued by Cal-Vet and determine if any requirements are outstanding. If a call is needed to clarify requirements or to determine status of the loan in process, it should be made to the Loan Processing Unit by calling 916-503-8352. Status inquiries for the Escrow Unit should be made by calling 916-503-8353. The Call Center, at 800-952-5626 has staff that can provide the current loan status and direct the call if further information is needed. Status may be checked on line once the system is available.

Documents needed to comply with requirements should be mailed or faxed to the Loan Processing Unit or the requesting field office and clearly noted as to the applicant's name, (Cal-Vet) loan number, with the Cal-Vet staff person's name, if known.

LOAN APPROVAL LETTER

Following the receipt and staff review of the appraisal, a letter is sent to the applicant, with copy to the mortgage broker, approving the loan. The letter will indicate loan approval; the amount of the loan (which may include the financing of the funding fee); the estimated monthly installment; the down payment; the amount of the fire insurance coverage and the amount of the Disaster Indemnity coverage, if any. The letter will contain the requirements to complete the loan processing on the second page.

Following the receipt and staff review of the appraisal, a letter is sent to the applicant, with copy to the mortgage broker, approving the loan.

READING THE GOOD FAITH ESTIMATE

With the loan approval letter, the applicant and broker will receive the Good Faith Estimate . The estimate details the amount of the loan, interest rate, loan term and loan guaranty fee (if financed). The charges and fees to be collected in escrow are estimated and placed in appropriate columns for the buyer and seller. Brokers should caution the applicants that the figures are estimates only, and who is to pay the fees (buyer or seller) is subject to the real estate contract and (if a VA loan), to the allowable fees restrictions of VA.

The estimates will show the loan origination fee; down payment; prepaid interest; premiums for the insurance programs; the impound account reserves; title and escrow fees. In the lower right is the breakdown of the monthly payment into principle and interest; insurance premiums; property taxes and the total. In the lower left is the estimated funds needed to close. It contains the following:

- Purchase Price
- Loan Amount (may include financed funding fee)
- Estimated Closing Cost: includes the buyers down payment plus the sellers closing costs
- Estimated Prepaid Items: includes buyers estimated closing costs less the down payment
- Amount Paid by Seller: sellers' closing costs
- Total Estimated Funds to Close: using the plus and minus figures, shows what the buyer needs to pay to close escrow.

The Good Faith Estimate must be signed by the applicants and returned to the appropriate office. A fax copy may precede the mailed copy. The issuance of the escrow instructions will not be delayed while waiting for the original signed copy to be received.

Closing Escrow

- Package Receipt in Escrow Unit
- Escrow Instructions
- Mortgage Broker Compensation
- Request for Funding
- Status Calls
- Post Closing

PACKAGE RECEIPT IN CAL-VET ESCROW UNIT

The completed loan package is forwarded to the Escrow Unit.

ESCROW INSTRUCTIONS

The Escrow Unit prepares the lenders escrow instructions which provide the specific requirements for funding the loan and closing escrow. This includes costs, fees and any remaining conditions as well as the closing documents which consists of two copies of the Cal-Vet Loan Contract and the Memorandum Agreement of Sale. These documents are sent via overnight mail to the Cal-Vet approved escrow holder. The escrow holder may have the documents picked up at the Escrow Unit, if arranged in advance, by a courier service or escrow company employee only. The escrow instructions are good for sixty days, allowing the escrow holder to comply with all requirements and close the transaction.

MORTGAGE BROKER COMPENSATION

The escrow instructions issued by the Escrow Unit will instruct the escrow holder to pay the loan origination fee to the certified mortgage broker. If there are additional brokerage fees due to the mortgage broker they will not be noted in the escrow instructions. Cal-Vet has no prohibition to the mortgage broker charging additional brokerage fees, subject to applicable VA restrictions. However, Cal-Vet will not be involved in the payment of the fees. **The mortgage broker must submit a demand to the escrow holder for these additional brokerage fees.**

Cal-Vet has no prohibition to the mortgage broker charging additional brokerage fees, subject to applicable VA restrictions.

REQUEST FOR FUNDING

Once the escrow holder complies with the requirements on the CDVA escrow instructions, a request from the escrow holder for funding shall be submitted with the funding package to the Escrow Unit, including:

- Cal-Vet Funding Request Form with requested funding date in writing
- Original signed Cal-Vet Contracts (2)
- Certified copy of the signed Memorandum Agreement of Sale
- Certified copy of signed Grant Deed showing CDVA as grantee
- Certified copies (2) of the Escrow Instructions signed by the buyers and sellers
- *(If new construction* copy of recorded Notice of Completion
- Pest control clearance when applicable
- Signed Fannie Mae 1003/URLA
- VA Form 26-1802a (HUD/VA Addendum to URLA) and VA Form 26-1820 (Report and Certification of Loan Disbursement) when loan is guaranteed by USDVA

Funds will not be released if the Department is not in receipt of all documents requested in the lenders instructions.

The above documents must be received in the Escrow Unit no later than 3:00 pm in order for the Department to issue loan funds the next working day. Loan funds will be sent by overnight mail to the approved escrow holder or Title Insurance Company. Funds will not be released if the Department is not in receipt of all documents requested in the lenders instructions. Cal-Vet does not wire funds.

The escrow holder receives the funding check and closes escrow. They assure that the Policy of Title Insurance with any endorsements is issued and they provide the HUD-1 closing escrow statement.

STATUS CALLS

The Escrow Unit issues the escrow instructions to the escrow holder promptly upon receiving the completed package from loan processing. If the status of the case is needed, the broker may call the Call Center at 800-952-5626 or the Escrow Unit at 916-503-8353. The tracking stages are:

- Received in Escrow Unit
- Escrow Instructions Issued
- Fully Funded

If the closing of the loan must be further expedited, arrangements should be made for the escrow holder to pick up the documents, if feasible. A request to pick up the documents must be made in advance.

Note: Status of loans may only be disclosed to veteran buyer and spouse, designated agent (identified on the Designation of Agent and General Release Form), the mortgage broker or escrow holder.

POST CLOSING

On Cal-Vet VA loans, the Escrow Unit must send the package to request the VA loan guaranty. The package includes the VA Loan Summary, Certificate of Eligibility, Receipt of Funding fee, Lenders Notice of Value, VA Form 1820 (Report and Certification of Loan Disbursement), and the HUD-1 settlement statement.

The VA audits approximately one in ten of the Cal-Vet loans. For audited loans, full VA documentation must be provided. Audit feedback has indicated areas of deficiency, including:

- Inadequate verification of income, especially "other" income
- Verification of Rent form is not submitted
- Debt shown on the application is not in the Loan Analysis
- Buyer is paying non-allowed fees
- The funding fee is incorrect
- VA forms are not originals (original signatures)

It is due to these audits and deficiency notices that Cal-Vet must adhere strictly to the VA standards of documentation on Cal-Vet VA loans.

- Insurance Programs
- Special Loan Programs
 - Construction Loans
 - Rehabilitation Loans
- Secondary Financing
- Interim Financing
- Owner Occupancy
- Contract of Sale
- Brochures
 - Life Insurance
 - Fire Insurance
- Supplemental Tax Bill
- Monthly Billing Statements

INSURANCE PROGRAMS

Cal-Vet provides insurance programs that provide comprehensive protection for the family and their investment. Cal-Vet utilizes competitive bid processes to assure attractive rates on the master policies that cover loan holders. The applicants receive printed brochures at the loan approval stage that provides details on all of the insurance programs.

Cal-Vet provides insurance programs that provide comprehensive protection for the family and their investment.

Fire and Hazard Coverage

Cal-Vet provides fire and hazard insurance on all homes except mobile homes and condominiums covered by policies through the homeowners association. The coverage is for real property improvements only. It does not cover household contents, personal property, nor does it provide coverage for personal liability. The mortgage broker should advise the applicants to consider obtaining a separate policy for those coverages. Some features of the insurance coverage include:

- The premium is based upon the estimated replacement cost new, determined on information from the appraisal.
- The coverage is "guaranteed replacement cost", meaning that if the approved amount of the claim exceeds the coverage amount, the full claim will be paid.
- The claims are adjusted by a private insurance adjustment company, under contract with Cal-Vet.
- The deductible is \$250 per loss.
- The applicant will receive a brochure providing details of the program, and the phone numbers to call for information or to report a claim.

Disaster Indemnity Program

This program covers the cost of repairing structural damage only to permanent improvements on the property. All of the homes under contract with Cal-Vet have this coverage. It is for real property only, and is guaranteed replacement cost. The premium is based upon the replacement cost new, following the review of the appraisal. Covered causes of loss (perils) are:

- Earthquake, including volcanic eruption, landslide or mudslide
- Flood, including surface waters and water that backs up through sewers or drains
- The deductible is \$500 or 5% of the approved claim, whichever is greater, for earthquake and \$500 for flood.

Home Protection Program

Cal-Vet provides life insurance coverage and optional insurance coverages for qualified applicants through a master insurance policy. Applicants must be under the age of 62 to apply for the insurance. A medical history statement and other information on the Home Protection Plan will be provided to the veteran applicant after their loan application is submitted.

The veteran applicant, if under age 62, will be required to apply for and carry the basic life insurance coverage. This insurance covers the monthly principal and interest for a specified period, following an evaluation by the insurance company of the veteran's health status. The insurance is "guaranteed issue"; no veteran will be denied coverage, but the term for the benefits may be less than the maximum. Premium amounts are based upon the age of the veteran and the loan balance and are detailed in the insurance brochure.

The insurance company also provides *optional* insurance coverages for approved purchasers, including:

- Life insurance coverage that pays off the remaining balance.
- Life insurance coverage for the spouse.
- Disability insurance coverage.

SPECIAL LOAN PROGRAMS

Construction Loans

Cal-Vet provides a competitive Construction Loan program. The features of this loan include:

- Financing up to 97% loan to value.
- Financing for the purchase of the homesite as well as construction.
- One loan – no conversion from construction to permanent financing.
- Construction must be done by a licensed contractor.
- The same interest rate and loan terms as with regular loans.

The homesite may
be purchased with
the loan.

The homesite may be purchased with the loan as will a site that the applicant already owns, and will be deeded to California Department of Veterans Affairs as part of the security for the loan. Homesites include any buildable site from acreage to lots in subdivisions. Improvements to be financed in construction include the dwelling, appurtenant structures, site improvements, patios, barns, pools, spas, landscaping, fencing, septic systems, etc.

In addition to the standard loan application documents, Cal-Vet requires one set of the approved plans and the following forms: Description of Materials, Cost Estimate and Contractors Statement. Cal-Vet will provide a Construction Loan Application package with the forms and instructions. The broker is encouraged to have the applicant meet with Cal-Vet staff to go over the project at the time the application is submitted.

Cal-Vet staff will qualify the applicant, do a site inspection, order an appraisal (from the approved plans) and process for loan approval. Escrow is done on the acquisition of the homesite and progress payments are made as construction reaches specified stages. The down payment, relative to the entire loan amount, is due at the close of escrow.

Rehabilitation Loans

Cal-Vet makes Rehabilitation Loans for applicants to purchase homes that may need refurbishment or repair, health or safety requirements, increased energy efficiency of the home, or need improvements to meet the family's needs. Cal-Vet will issue funds in escrow to purchase the house "as-is" and commit funds to make progress payments for the improvements to be done after close of escrow. The work is typically done by licensed contractors, although some work may be done by the applicant. Applicable permits must be obtained. If work is done by the applicant, only the cost of materials will be reimbursed. The loan holder has ninety days to complete the improvements.

The loan terms are the same as a regular loan. Cal-Vet does not provide the Cal-Vet VA loan for this type of loan. In addition to the regular loan application documents, Cal-Vet requires a detailed statement of the improvements to be made after close of escrow, plus estimates for the work (contractor estimate(s) and/or material cost estimates). Cal-Vet will have the appraiser do "as-is" and enhanced valuations, to base the loan amounts for the initial purchase and the conditional commitment.

SECONDARY FINANCING

Secondary financing behind a Cal-Vet loan is allowed. The combined recorded financing (Cal-Vet loan plus the secondary financing) cannot exceed 98% of the sales price or appraised value, whichever is less. The loan must be included in the underwriting as a monthly liability and meet the qualification guidelines. The documents required in loan processing are as follows:

- Copy of the Note
- Subordination Agreement with original notarized signatures of the applicants and lenders.

If there is existing financing to be subordinated to the Cal-Vet loan, a copy of the recorded Deed of Trust and the two-page Subordination Agreement is required.

INTERIM FINANCING

Cal-Vet does not refinance existing loans. The veteran cannot obtain Cal-Vet financing on a property in which they have an interest of record prior to filing their loan application. The exceptions would be properties in which there is not a completed home, in which the applicant intends to build, and in instances of temporary interim financing. The applicant may use interim financing if they are unable to wait for Cal-Vet to process the loan, or they are temporarily unable to obtain the Cal-Vet financing due to compliance issues, or if they have a construction loan from another lender that they want to refinance with permanent financing from Cal-Vet. The applicant must submit their application for the Cal-Vet loan *prior* to closing escrow on the interim financing, or prior to the home being completed for refinancing a construction loan.

The term of the interim loan **cannot exceed twenty-four months**, measured from the date of the promissory note to the date of the loan is all due and payable. Cal-Vet requires the following forms in the loan processing:

- Certified copy of the Note and Deed of Trust, or the unrecorded financing document.
- The Statement of Indebtedness form, signed by the applicant and lender, showing the entire amount to be paid to satisfy the loan.

OWNER OCCUPANCY

The Cal-Vet Contract requires owner occupancy. The veteran or a member of his/her immediate family must actually reside in the property and maintain it as their principal place of residence. The occupancy requirement must be met within sixty days from the close of escrow (except under a Rehabilitation Loan if the home is not habitable). Financing from Cal-Vet is not provided for the purchase of second homes, vacation/seasonal homes or for income purposes.

Cal-Vet does have a policy for occupancy waiver, upon showing good cause and at the discretion of the Department. Loan holders would contact the Customer Service Unit for Cal-Vet to determine the requirements and limitations for the waiver of occupancy.

CONTRACT OF SALE

Cal-Vet does not use a Note and Deed of Trust, which is the commonly used security instrument in home financing. The security instrument used in a Cal-Vet loan is a Contract of Sale (also called a Land Sale Contract). Under the terms of the contract, legal title is held by the California Department of Veterans Affairs and the loan holders hold equitable title under the contract. The contract establishes CDVA as the “vendor” and the contract purchaser as “vendee”. The security is entered into the public record using a Memorandum Agreement of Sale. Per the Military and Veterans Code, title under the contract may be held only by the veteran, or by the veteran and spouse. They may hold title as joint tenants, tenants in common, community property or under a trust.

Use of the Contract of Sale, while more unusual for brokers, allows Cal-Vet to provide more benefits to the veteran, while not limiting their rights and property uses as homeowners. Cal-Vet is able to obtain better bond ratings and pass on the savings in the form of lower interest rates.

Ownership of the portfolio of properties allows for better premium rates on the master insurance programs. Cal-Vet has greater flexibility in assisting contract holders in loan servicing and in making home improvement advances. The contract of sale is subject to the Military and Veterans Code rather than more general civil codes.

Use of the Contract of Sale, while more unusual for brokers, allows Cal-Vet to provide more benefits to the veteran...

BROCHURES

During the loan processing and escrow stages, the applicant will receive several brochures, that provide specific information. These are:

Home Protection Program

This brochure describes the life insurance program, as well as the optional insurance coverages for life and disability.

Fire and Hazard

This brochure describes the Fire and Hazard Insurance Program and the Indemnity Program (for disaster coverage including flood and earthquake).

SUPPLEMENTAL TAX BILL

Supplemental property tax bills are issued by the respective counties based on change of ownership or improvements that have increased values. Supplemental tax bills are issued directly to the loan holders and are not included in the monthly tax collection (impound) by the Department.

Cal-Vet will pay the supplemental tax bill upon request by the loan holder. If there are not adequate funds in the impound account to cover the additional tax bill, the monthly installment will be increased. Cal-Vet does collect for and pay the regular annual tax bill unless the loan holder has requested and received a waiver to pay their own taxes because of a 20% equity position..

Cal-Vet will pay the supplemental tax bill upon request by the loan holder.

MONTHLY BILLING STATEMENTS

Cal-Vet issues regular monthly billing statements, rather than using coupon billing books. The first monthly statement, after the close of escrow, is issued on the first of the month following thirty days from the date of closing. All subsequent statements are mailed to the loan holder a few days before the end of a month. The payment is due on the first of the month and delinquent after the sixteenth. The payment must be physically received in the Cal-Vet HQ office by the 16th unless a weekend or holiday and then it would be the next work day. The loan holder may access information about their account by using the Integrated Voice Response (IVR) system, 24 hours a day, at 800-952-5626.